



# GUIDE TO TAX-SMART INVESTING

*for high-income professionals*

## WHY TAXES ARE THE SILENT KILLER OF INVESTMENT RETURN

*High-income professionals face a unique challenge: the better you do, the more the tax code seems to chip away at your gains. While investment performance matters, it's what you keep after taxes that determines your real wealth. In this guide, we'll explore proven strategies to help you invest more tax-efficiently, preserve more of your returns, and position your portfolio for long-term success.*

### 1 The Impact of Taxes on Investment Returns

Taxes can quietly erode investment gains, especially for those in the top tax brackets. Understanding how different investments are taxed is key:

**Interest income** (e.g., from bonds or savings accounts) is taxed at ordinary income rates.

**Qualified dividends and long-term capital gains** benefit from preferential tax rates.

**Short-term capital gains** (from assets held less than a year) are taxed as ordinary income.

#### WHAT YOU CAN DO:

Prioritize tax-efficient investments (like ETFs and index funds) in taxable accounts.

Be mindful of holding periods to benefit from long-term capital gains rates.

Consider municipal bonds in taxable accounts to generate federally tax-free income.

## 2 Tax-Efficient Asset Placement

Not all accounts are created equal. Where you place your investments (asset location) can significantly impact your tax bill.

**Taxable accounts:** Ideal for tax-efficient assets (e.g., index funds, municipal bonds, stocks held long-term).

**Tax-deferred accounts (401(k), traditional IRA):** Use for tax-inefficient assets like REITs, bond funds, and actively managed mutual funds.

**Tax-free accounts (Roth IRA, Roth 401(k)):** Great for assets with high growth potential.

### WHAT YOU CAN DO:

Place high-turnover or high-dividend investments in tax-deferred accounts.

Rebalance using tax-advantaged accounts to avoid triggering capital gains.

Use a “core-satellite” strategy: establish a tax-efficient core in taxable accounts, and hold options with aggressive growth potential in a Roth.

## 3 Tax-Loss Harvesting and Strategic Charitable Giving

Tax-loss harvesting involves selling securities at a loss to offset gains elsewhere—a powerful strategy in volatile markets.

**Charitable Giving:** For high-income earners, strategic giving can reduce your tax liability while supporting causes you care about.

### WHAT YOU CAN DO:

Harvest losses during market downturns to offset gains or up to \$3,000 of ordinary income.

Watch for the **wash-sale rule** (don't buy the same or a substantially identical security within 30 days).

Donate appreciated securities instead of cash to avoid capital gains and claim the full market value as a deduction.

Use a **Donor-Advised Fund (DAF)** to bunch multiple years' contributions into one high-income year.

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## Roth Conversions and Withdrawal Sequencing

Roth conversions can help manage future tax burdens, especially during low-income years or early retirement.

**Withdrawal sequencing** refers to the order in which you tap accounts in retirement—critical to minimizing taxes over your lifetime.

### WHAT YOU CAN DO:

Convert traditional IRA assets to a Roth gradually to stay within a favorable tax bracket.

Consider Roth conversions in years with lower income (e.g., gap years before Social Security or RMDs).

Withdraw from taxable accounts first, then tax-deferred, and save Roth for last (reserving it for heirs or emergencies).

Use tax bracket management to reduce lifetime RMDs and avoid Medicare IRMAA surcharges.

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## Estate Tax Strategies for High-Net-Worth Individuals

With the current estate tax exemption set to sunset, proactive planning is crucial.

### WHAT YOU CAN DO:

Use the current high exemption (\$13.99M per person in 2025) before it reverts in 2026.

Establish **irrevocable trusts** to remove assets from your estate.

Use **annual exclusion gifts** (\$19,000 per person in 2025) to transfer wealth tax-free.

Consider **family limited partnerships** or **GRATs** to discount and transfer appreciating assets.

Coordinate your estate plan with your charitable goals for maximum impact.

## CONCLUSION: TAKE CONTROL OF YOUR TAX BILL

*You work hard to earn a high income—don't let poor tax planning undo it. Smart tax strategies are one of the most powerful tools available to investors. Want help applying these principles to your situation?*

*Consult with one of our advisors today—[CAPNORTHWEST.COM/GET-STARTED](https://CAPNORTHWEST.COM/GET-STARTED)*

*Make tax efficiency a pillar of your wealth strategy. Your future self (and heirs) will thank you.*

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